

Message Text

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TO USLO PEKING

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L STATE 067377

LIMDIS

E.O. 11652: GDS

TAGS: BDIS, CH

SUBJECT: CHROMALLOY AMERICAN CORP. CONTRACT

RENEGOTIATION WITH CHINATEX

FOLLOWING IS COMMERCIALLY SENSITIVE INFORMATION TO BE
CLOSELY HELD.

1. TWO OFFICIALS OF CHROMALLOY AMERICAN CORPORATION,
PARENT CORPORATION OF SWIRLES AND CO., WILL BE ARRIVING IN
PEKING ON AIR FRANCE APRIL 5. THEY ARE WILLIAM J.
DONNELLY, VICE PRESIDENT, TEXTILE GROUP, AND ANGELO M.
PEZZANI, ATTORNEY. DONNELLY AND PEZZANI WILL CONTACT USLO
ON ARRIVAL AND MAY REQUEST ADVICE AND ASSISTANCE IN RE-
SOLVING A POTENTIALLY VERY DIFFICULT DISPUTE WITH CHINATEX.

2. DURING THE 1973 FALL CANTON FAIR, FRANK M. SWIRLES,
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PRESIDENT OF SWIRLES AND CO., HAD BEEN AUTHORIZED BY

CHROMALLOY TO PURCHASE "A COUPLE OF HUNDRED THOUSAND DOLLARS" OF CHINESE TEXTILES AS AN EFFORT TO "GET A FOOT IN THE DOOR OF THE CHINA MARKET." IN THE EVENT, HE BOUGHT DOLS. 5.5 RPT. DOLS. 5.5 MILLION WORTH OF THIRTEEN DIFFERENT CATEGORIES OF GRAY GOODS. ALMOST IMMEDIATELY AFTER HE MADE THESE PURCHASES, CHROMALLOY ASSERTS, THE MARKET FOR GRAY GOODS IN THE U.S. COLLAPSED. IMPLEMENTATION OF THE CONTRACT NOW WOULD RESULT IN A LOSS OF PERHAPS DOLS. 1

RPT DOLS. 1 MILLION FOR CHROMALLOY IN TERMS OF SACRIFICE SALES AND/OR INVENTORY STORAGE CHARGES. THERE HAS BEEN PARTIAL EXECUTION OF THE CONTRACT ON SIX OF THE CATEGORIES OF GRAY GOODS, ABOUT THREE OF WHICH ARE THE CATEGORIES ON WHICH CHROMALLOY WOULD TAKE A SUBSTANTIAL LOSS.

3. AFTER SWIRLES'S RETURN, CHROMALLOY ATTEMPTED TO UNLOAD THE GRAY GOODS BELOW COST TO BUYERS IN THE U.S. AND OVERSEAS, WITH NO SUCCESS. CHROMALLOY WAS ON THE VERGE OF CANCELLING THE ENTIRE CONTRACT, BUT WAS TALKED OUT OF IT BY ITS CONSULTANT, MARTIN KLINGENBERG. ABOUT THREE WEEKS AGO, CHROMALLOY CABLED CHINATEX REQUESTING AN OPPORTUNITY TO COME TO PEKING TO RENEGOTIATE THE CONTRACT. AN INVITATION TO COME WAS RECEIVED ALMOST IMMEDIATELY.

4. CHROMALLOY NOW DOES NOT WISH TO BREACH THE CONTRACT, BUT SINCE IT CANNOT AFFORD THE ENORMOUS LOSS IT WILL INCUR IF IT IS IMPLEMENTED AS WRITTEN, IT WILL HAVE TO CANCEL IF THE CHINESE WILL NOT RENEGOTIATE. AMONG OPTIONS WHICH CHROMALLOY HAS EXPLORED ARE DELAYED DELIVERY TO AVOID EXCESSIVE INVENTORY BUILD-UP AND GIVE TIME FOR THE MARKET TO RECOVER, PRICE REDUCTION BY THE PRC, PRC PRICE REDUCTION COMBINED WITH CHROMALLOY PURCHASE OF SOMETHING ELSE FROM CHINATEX OR ANOTHER CORPORATION, ETC. IN CONVERSATION WITH DONNELLY AND PEZZANI ON EVE OF DEPARTURE APRIL 3, DEPTOFF RE-EMPHASIZED THAT CANCELLATION OF THIS CONTRACT WOULD LIKELY PRECLUDE CHROMALLOY FROM FURTHER BUSINESS WITH THE PRC FOR FORESEEABLE FUTURE, THAT CANCELLATION COULD HAVE

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AN ADVERSE IMPACT ON OVERALL ATMOSPHERICS OF US-PRC TRADE, AND URGED SINCERE EFFORT TO FIND COMPROMISE SOLUTION SATISFACTORY TO BOTH SIDES. CHROMALLOY WILL APPROACH NEGOTIATIONS WITH CHINATEX IN THIS SPIRIT, BUT IS PREPARED TO GIVE UP DOING ALL BUSINESS WITH THE PRC IN FUTURE RATHER THAN GO THROUGH WITH THE CONTRACT AS CURRENTLY WRITTEN.

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